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April 16, 2015

To: Mayor Michael D. Antonovich,
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

From: Joseph Kelly 
Treasurer and Tax Collector

RESPONSE TO BOARD MOTION ON CREDIT CARD SURCHARGE ON PROPERTY TAX PAYMENTS (ITEM NO. 7, AGENDA OF MARCH 3, 2015)

On Tuesday, March 3, 2015, the Board of Supervisors adopted a motion by Mayor Michael D. Antonovich requesting the Interim Chief Executive Officer, Treasurer and Tax Collector, and County Counsel to report back on the following:

1. The feasibility to eliminate or significantly lower the surcharge the Treasurer and Tax Collector's office mandates for all credit card transactions on property taxes; and
2. The fiscal impact of eliminating or reducing the aforementioned credit card surcharge in increments of 0.1%.

Also participating in the completion of this report was the Auditor-Controller and Chief Information Officer.

Executive Summary

In a response to the Board motion, a work group was convened consisting of members from the Chief Executive Office (CEO), Treasurer and Tax Collector (TTC), County Counsel, Auditor-Controller (A-C) and Chief Information Office (CIO). The team examined the feasibility of eliminating or significantly lowering the fees charged for credit card transactions and the fiscal impact of eliminating or reducing service fees in increments of 0.1%. Service fees are driven by the payment networks and the Third Party Service Provider (TPSP), which are competitively bid and within industry standards. Without a reduction in fees from the TPSP, any immediate reduction in fees charged to taxpayers would require Net County Cost to fund. The credit card service fees (2.1% of the property tax amount and \$5.95) for October 1, 2013, through April 10, 2014, reached \$4.9 million.

Background

On February 3, 1998, your Board adopted the Cost Neutral Acceptance Policy (Policy) for credit/debit card payment programs. This policy supported the development and implementation of cost neutral credit/debit card payment programs for legally permissible district and countywide applications; thereby, providing more payment options to the public without negatively impacting County costs or revenue.

On April 4, 2006, the Board expanded the Policy to allow County departments and districts to: (1) with the approval of the A-C, include credit/debit card transaction costs and other application costs in the fees charged to all customers; or (2) with the approval of the CEO, absorb the card transaction and other application costs in their respective budgets when there is a reasonable business case to do so. This expanded policy does not apply to credit/debit card property tax payments; as local governments, special districts and schools cannot add the credit/debit card transaction costs and other application costs to the tax amount since taxes are fixed by statutes.

Property taxes are a major revenue source for local governments, and the related fees from credit/debit card transactions are a substantial amount. The cost of these fees cannot be offset by cost reductions or efficiencies that result when accepting the credit/debit cards. In order to accept credit/debit card property tax payments, local governments, via a third-party vendor, may charge a service fee to credit/debit card users to offset the costs to accept the tax payment.

The TTC established online payment functionality in 2009. Credit/debit card payments via Interactive Voice Response (IVR) had previously gone live in 1998. Through this new online functionality, a taxpayer could submit either an eCheck or a credit/debit card property tax payment.

eCheck

eCheck is a payment method in which taxpayers enter their checking account information (e.g., bank account number, routing number, and payment amount) into an online template. The processing fees for eChecks are less than 10 cents per transaction, which is less than the cost of processing paper checks through the Department's remittance processing operations. It was important to the TTC that it present a free online payment option to taxpayers, so fees for all eCheck transactions are absorbed by the TTC. During the period of October 1, 2013, through April 10, 2014, the eCheck payment method accounted for 84% of all tax payment dollars received online.

Credit/Debit Card

The acceptance of credit/debit cards qualifies as cost neutral under the Policy, as the service fee is charged and retained by the TPSP that processes the payments. At the time the online functionality for credit/debit cards was established, the following issues were considered:

- The projected costs of the service fees would have been too great to absorb within the County's budget.
- Property taxes include special assessments, bonded indebtedness, etc., and taxing entities (e.g., cities, special districts, and schools) must receive 100% of all property tax dollars collected. According to Division 1, Part 0.5, Chapter 6 of the Revenue and Taxation Code, commonly called Assembly Bill (AB) 8, real property taxes are apportioned to local governments according to a specified formula. It would not be permissible to offset service fees using pre-apportioned property taxes since that may affect the apportionment of property taxes to local governments. As a result, the County cannot reduce apportionments to taxing entities to offset the cost of the fees. The County is allowed to collect Property Tax Administrative Fee pursuant to Revenue and Taxation Code Section 95.3. We considered the option of billing the taxing entities, as permissible, directly for their share of the fees. However, County Counsel believes such an approach does not align with the spirit of the statute.
- The County's portion of all general levy taxes collected is approximately 25%. There is an equity issue of the County solely absorbing all service fees, when it receives 25 cents out of every dollar.

Acceptance of Credit/Debit Cards for Property Tax Payments

The TTC currently accepts credit/debit cards through each of the following methods:

- Online (lacountypropertytax.com)
- Telephone (IVR)
- Point of Sale (walk-ins to the Kenneth Hahn Hall of Administration)

Through the County's eCommerce contract, the TTC utilizes a TPSP to process payments. For debit card payments, there is a flat service fee of \$3.95. For credit card payments, the service fee is 2.1% of the property tax amount being paid plus an additional \$5.95. The credit card service fee is comprised of the various interchange and network fees set by the payment networks used (i.e., Visa, MasterCard, American Express, and Discover) and the TPSP's administrative costs.

The 2.1% property tax service fee was the awarded bid in the recent TPSP e-Commerce contract in 2013. During the bidding process, the County presented the 2010 volumes of all our various eCommerce applications including property tax payments. The winning TPSP responded with various pricing models based on the type and volumes of the various credit card transactions the County uses. Property tax payments must use the tax transaction service fee pricing model which is reflective of the significant dollar volumes processed for tax payments. Non property tax payments cannot use the tax transaction service fee pricing model.

The following are the credit card payment statistics for October 1, 2013, through April 10, 2014:

Payment Channel	Credit Card Payment Amount	Payment Count	Service Fee (@ 2.1%)	Service Fee (@ \$5.95)	Total Fees
Online	\$ 145,516,000	45,320	\$ 3,056,000	\$ 270,000	\$ 3,326,000
Telephone (IVR)	\$ 68,676,000	20,481	\$ 1,442,000	\$ 122,000	\$ 1,564,000
Point of Sale	\$ 1,842,000	844	\$ 39,000	\$ 5,000	\$ 44,000
Total:	\$ 216,034,000	66,645	\$ 4,537,000	\$ 397,000	\$ 4,934,000

Based on the chart above, the average credit card property tax payment is approximately \$3,200, with a service fee of \$73.15 (\$67.20 + \$5.95). For perspective, the overall property tax collections during this period was \$14,411,577,000, made up of Checks and Cash (63%), Electronic Fund Transfers (26%), eChecks (9%) and credit/debit card payments (2%).

Feasibility to Eliminate or Significantly Lower the Service Fee on Credit Card Property Tax Payments

The current fees are fixed for the duration of the eCommerce contract term but may be modified providing an approval from both the County and the TPSP. According to the CIO, there is a risk that the fees may be increased. The current plan is to evaluate the fees when the County goes out to bid for a new eCommerce contract in 2018 (when the initial term of the current contract ends).

As part of its due diligence, and in an effort to gauge the appropriateness of the current fee structure, the TTC conducted a survey of California County Treasurer and Tax Collectors regarding their fee model for credit card transactions. All counties that responded work on the similar fee model as Los Angeles County where the TPSP charges a service fee to transact property tax payments. The general range of service fees is from 2.25% to 2.65%, which places Los Angeles County on the lower end of the fee structure. No counties absorb these fees.

Fiscal Impact of Eliminating or Reducing Surcharge in increments of 0.1%

As reflected in the chart above, credit card payments for property taxes from October 1, 2013 through April 10, 2014, totaled approximately \$216,000,000. Based on these

figures, each 0.1% reduction in the service fee would reduce total fees by \$216,000 annually. Based on the average tax payment above, the incremental savings to a taxpayer from each 0.1% reduction would be approximately \$3.20.

Other Options Considered

In an effort to be as responsive to this motion as possible, the TTC explored other options as well. One proposal considered was to offer a one-month promotional or grace period for each property tax installment period. As an incentive to the taxpayer to pay his or her property taxes by the due date for each installment (i.e., November 1 and February 1, respectively), the 2.1% service fee would be absorbed by the County, however the service fee of \$5.95 would remain. The thought behind this proposal was the month-long promotion would incentivize taxpayers to pay early. These early payments would be invested in the Treasury Pool and the interest earned would offset the absorption of the service fees (satisfying the requirements of the Board's Cost Neutral Acceptance Policy).

Based on monthly historical figures and projecting an increase in credit card usage due to the incentive, the County could potentially collect an additional \$33 million for a total of \$66 million during both of these promotional periods (while absorbing \$1.4 million in service fees). If the \$33 million were invested at the February 2015 Treasury earnings rate of .75% for 30 days, the interest earnings of \$21,000 would fall well short of the service fees absorbed. To achieve a revenue target that would offset the \$1.4 million in fees, we would need to achieve an earnings rate of 51%.

Another option the County could consider, would be absorbing the credit card service fees in their entirety. Based on the data collected from October 1, 2013, through April 10, 2014, this would cost the County \$4.9 million in ongoing net County cost. However, it is anticipated that the elimination of the service fees could dramatically increase the number of credit card payments resulting in even more cost to the County. As stated earlier, if the County opted to absorb these fees, it would be absorbing 100% of the cost of property tax payments made with credit cards while receiving only 25% of the apportioned tax dollars. Moreover, waiving these fees would not benefit property taxpayers who pay by cash or check and could result in a negative perception of the utilization of public funds to offset these costs. There are also equity issues among taxpayers, as credit card users who benefit from points, rebates, rewards, etc., would be effectively subsidized by taxpayers that do not have access to credit cards or choose to pay by other means.

Conclusion

In summary, the TTC examined the feasibility of eliminating or significantly lowering the fees charged for credit card transactions and the fiscal impact of eliminating or reducing service fees in increments of 0.1%. It was confirmed that the service fees are driven by the payment networks and the TPSP, which are competitively bid and within industry

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standards. Without a reduction in fees from the TPSP, any immediate reduction in fees charged to taxpayers would require Net County Cost to fund.

Should you have any questions, please contact me directly or your staff may contact Mark Oune, Assistant Treasurer and Tax Collector, at (213) 974-7363 or moune@ttc.lacounty.gov.

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c:

Assessor
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